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Past and present of the bank of England.

PAST AND PRESENT POLICY

OF

THE BANK OF ENGLAND:

THE BANKING ACTS OF 1844-45;

OR,

FREE TRADE IN BANKING.

BY

AN OLD BANKER.

“KNOW THYSELF.”

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CHAPTER I.

POLICY OF THE BANK OF ENGLAND.

THE recent policy of the Bank of England in raising the Discount rate of Interest, avowedly for the purpose of arresting the drain of bullion from the country, and checking the concurrent demands upon it for accommodation, has originated a formidable, though not in all respects a well-informed, agitation for sweeping alterations, if not for the complete repeal of Sir Robert Peel's Banking Acts of 1844 and 1845.

These monuments of the great Statesman's financial and economical knowledge and sagacity must not, however, be permitted to be tampered with on light grounds. Admitting here then, to the fullest extent, at the outset, the extreme caution which should be exercised in interfering with, or altering these celebrated enactments, the question yet remains, how does it happen, if these laws are really so salutary as they are represented to be, that complaints and objections as to their practical working should still be so loud, and so oft repeated? The answer involves the consideration of our entire system of currency and banking; but for our present purpose it is sufficient to say, that the agitation now afloat may be ascribed to the simple circumstance of money having become unexpectedly dear and difficult to obtain. What so easy as to impute this scarcity and high price to our present monetary arrangements, or peculiar banking machinery?

Yet, a little reflection should have shewn that no law, what-

ever its character, could exempt money or capital from being plenteous at one time and scarce at another, money being, from its very nature, liable to all these perturbations and fluctuations in value, to which all commodities without exception are periodically subject.

The policy of the Bank of England, therefore, on this view, has been straightforward and simple.

The demand for gold and for banking accommodation generally, having increased, what so natural and right as that the rate of discount should be raised, and bullion, the Bank's commodity, and its representative, bank-notes, enhanced in price to the public. In adopting this course, there was no divergence either from sound principle or mercantile usage; for, observe, if the Bank, in place of a great bullion mart, had been merely the grand emporium for such articles as cotton, iron, sugar, or corn, in what way could the Bank Directors as merchants, have met an enormous sudden demand, preserved their stocks from exhaustion, retained the power of replenishing their warehouses to meet the ordinary requirements of trade, and perhaps prevented a dearth, but by raising prices in proportion to the irregular character and intensity of the demand—thereby checking consumption, stimulating production, turning the attention of buyers to other markets, and bringing supply and demand once again into a state of equilibrium. How apposite here, the reflection of the philosophical historian, when treating of the attempts of the great French Minister, Sully, to arrest unwelcome changes in the value of money, when he says: "The world had yet to learn that gold and silver, whether with or without the impress of a national mint, obey the same laws which regulate the prices and the interchange of all other merchantable articles."—*Stephens's Lect. on Hist. of France*, v. 2, p. 69.

The convenience, indeed, of the mercantile community has evidently formed, on this as on former occasions, by far the most important element in the deliberations of the Bank. It

must have been in deference to commerce, though scarcely consistent with prudent banking, that the rate of discount was kept at $3\frac{1}{2}$ per cent. from June, when the bullion stood at L.18,000,000, till the 4th September, when it had fallen to L.14,217,000, and only then reluctantly raised to 4 per cent.

The Bank Returns, from June downwards, having exhibited a steady and continuous efflux of bullion, and the public being equally cognisant with the Bank Directors of the French, English, Sardinian, and Turkish loans, the drain of silver from the Continent for India and China, the gold required for the payment of the enormous armies and armaments in the Crimea, the Black Sea, and the Baltic; the subtraction of capital from its usual channels for the support of these anomalous institutions in France, the *Credit Mobilier*, the *Credit Foncier*, and kindred undertakings; the arrangements for the withdrawal of specie to found a monster Land and Share Bank at Vienna; and last, though not least, the apparent inevitable disbursement of several millions for grain importations into France and Great Britain. What other results could be expected to flow from these extraordinary concurrent demands on the capital of the country, than those just witnessed—a reduction in the amount of bullion in the Bank of England between June and November, of L.6,696,635—and as a necessary consequence, a rise in the Bank's rates of discount in the same period to 6 and 7 per cent.

Had the Bank of England been free from all restriction, its only standard and guide its own safety, and the convertibility of its note, it is difficult to see how, even if unfettered, its policy could have been materially different from that which it pursued in the spring of 1854, and again repeated upon the present occasion.

Supposing the distinction between the specie and banking departments of the Bank of England abolished, and these to be merged once more, theoretically and practically, into one institution, would increased confidence on the part of the public, or

greater support to the commercial community be the consequence of this concentration, desiderated by not a few? It is true, under an arrangement like this, a large amount of bullion might for the time be released. But fettered or free, the Bank must always retain in its coffers a certain amount of specie proportioned to its liabilities. Horsley Palmer, and other authorities, fix this reserve at one-third. Assuming for illustration this proportion to be the true one, we find that on 27th October, 1855, the Bank's liabilities were L.36,443,194, requiring a reserve, according to this hypothesis, of L.12,147,731, the actual amount of bullion in the Bank on that day being however only L.11,303,345.

With a deficiency under this rule then, of L.844,366, the demands for the precious metals would probably have been discountenanced, and extra banking accommodation at any rate, could scarcely have been expected.

Under the present system, on the other hand, with a sound currency too, on a gold basis, the capital available for banking purposes is shewn by the Bank returns on 27th October last, to have been L.4,867,465, a favourable comparison with the above deficiency, though no doubt this capital was only to be obtained at prices higher than what were either desirable or possible under other circumstances. But, on an occasion like this, demands for accommodation should, it is said, be met by an increased issue of notes, and the bullion, L.11,303,365, might be exported. With however, an adverse foreign exchange, and such a drain of specie as is now being experienced, would not the expansive policy here recommended be tantamount to handing over the resources of the country to the foreign speculator?—would it not assist in checking the export of commodities by bolstering up prices? Would it not be holding out a premium to merchants and capitalists to keep their funds abroad, instead of drawing their resources towards England, and thereby influencing the exchanges? Such a flood of paper certainly, might endanger the

convertibility of the note; and in such a case, the suspension of cash payments, with distrust and confusion, would not unlikely be the consequence of this monetary aberration. The advocates of such schemes have evidently never seriously considered how our foreign payments could be made balances to other countries liquidated, without a reserve of bullion in the Bank, or elsewhere, sufficient for all demands and emergencies, commercial and political.

It is encouraging to the upholders of the existing system to reflect, that amid the panic and excitement of 1847, the demands for money occasioned by overtrading with America and Australia in 1853 and 1854, and again during the existing pressure, the convertibility of the Bank note has never been doubted, the soundness of our entire paper currency never once questioned. How different this position from that which the country occupied in 1793, 1814, 1816, 1825-26, 1838-39, when not only was the bank note everywhere subject to suspicion, but, as it unfortunately happened, a very large proportion of the provincial banks stopped payment, and produced by their fall an extent of bankruptcy and ruin, seldom equalled in any other country.¹

But, eschewing here further reference to what happened long ago, rather to save space, limiting the illustration to what occurred in 1839, when the specie in the Bank of England fell to L.2,500,000, and the circulation to L.17,500,000, it is now notorious that the panic at that disastrous period was greatly aggravated by the doubts so generally entertained of the ability of the Bank to redeem its notes in gold. How striking here the contrast at present, even within this limited range! Since 1844, a run upon the bank of England has been unheard of—notes not gold were hazarded in 1847—the specie in this interval has fluctuated widely, but the circulation has kept comparatively steady, despite occasional pressure and excitement. But to have recourse to examples for evidence of steadiness, thus, on 13th October

¹ McCulloch's *Commercial Dictionary*—Art. Banks.

1847, with L.8,438,874 of bullion, the note circulation of the Bank was L.20,832,750. Again, on 6th May 1854, with L.12,608,079, L.21,974,300. And on 27th October 1855, with L.11,303,365, L.20,435,745. Proofs of confidence indeed, in the note currency, were such necessary, could be multiplied indefinitely; and it may well be asked, how has this abiding faith been attained, if not through the policy imposed upon the Bank by these now famous Acts of Sir Robert Peel?

CHAPTER II.

REASONS FOR SIR ROBERT PEEL'S BANKING ACTS—THEIR PURPOSES—RESULTS ATTAINED.

HAVING thus explained the recent policy of the Bank of England, there is no presumption in saying that these Banking Acts of Sir Robert Peel were no rudimentary experiments; exactly the reverse,—they were measures based on experience and sound principle; and in order, therefore, that they may be understood aright, we shall here state in some detail the chief evils and defects which these enactments were proposed to remedy.

1st, There was that clamant evil, the want of an established rule on the part of the Bank of England for the management of its issues.

2d, The delay in the publication of its accounts.

3d, The want of any distinct or guiding principle for regulating the issues of the provincial banks.

4th, The unfair exemption of the Scotch and Irish Banks from the expense and responsibility, while enjoying, at the cost of others, all the advantages of a metallic currency.

5th, The facilities enjoyed by adventurers and speculators to found at pleasure banks of issue and joint stock banks; and,

Lastly, The want of due provision for insuring the possession of *bona fide* capital by new joint stock banks for the audit and the publication of accounts and of the names of shareholders, for the enlargement of the share, and other regulations of a protective nature.

These defects, under the old system, were plain and indisputable, and universally acknowledged.

Let us look at what has been accomplished. *First*.—The constitution of the Bank of England has been remodelled; the issuing and banking departments divided—the former so regulated by statute as to work almost mechanically—the latter left to the directors to manage on the usual banking and commercial principles. It is true this alteration in the constitution of the Bank did not work well at first, not, however, from any inherent defects in the machinery, but simply from those in the management of the Bank in 1846 and 1847, forgetful of the fundamental changes effected in 1844, having neglected to pay attention to the rules of prudent banking.

Since 1847 the management, however, has been in harmony, on the whole, with the spirit of the Act. There is no chance now, short of downright blundering, of any of its provisions again requiring to be suspended.

The perturbation and panic in 1847, when Government interfered, arose more, it may be here explained, from want of confidence in commercial houses than from any real fear on the part of the public of the stability of the Bank. This distrust, of which the consequences were so injurious, subsequent investigations proved, however, to have been well founded, for most of the houses that were refused discount accommodation failed, and that, on that occasion, were then distinctly shown to have been insolvent for many years.

Second.—New banks of issue have been prohibited. What

occasion for thankfulness! How would the railway mania in 1844-45 have been increased, and the Californian and Australian fevers fed by the untrammelled licence to found banks of issue.

Third.—The English provincial banks are now deprived of the power to issue notes at will; their circulation is restricted by statute to L.8,650,000; and this limit reached, any extra issues on their part must be made in sovereigns or Bank of England notes. It, moreover, happens, from banks, since 1844, having failed, renounced, or forfeited their privileges, that this restricted circulation is still farther reduced by L.623,425, making the aggregate amount at present L7,926,375.

These arrangements, prohibitive and restrictive, have proved eminently salutary; for formerly, when adverse exchanges occurred, the policy of the Bank of England was liable to be thwarted, in its early and important stages, by increased accommodation, and consequent expansion of issues on the part of the country banks. Now, the contrary is just seen; for, in place of being unwarrantably plenteous, the note circulation of the country banks was, on 29th September last, merely L.6,734,649, or L.1,191,926, less than the present authorised amount—plainly indicating watchfulness and prudence, attention to the exchanges; nay, more, the existence of a sound and legitimate business throughout the length and breadth of England.

Fourth.—The Scotch and Irish banks, in like manner, have been subjected to restrictions. Just, again, on the principle, that where a power is delegated to supply a paper currency, or, which is the same thing, in other words, to issue notes, means must be taken to insure the convertibility of these notes into gold—substitutes for gold, however plausible, being practically delusive.

It is quite true the Scotch banks, by their system of local exchanges, had managed to obtain an instrument of undoubted efficacy for economising currency, and checking forced or fictitious issues. This plan of mutual exchanges never, however,

hindered banks of bad repute from keeping in circulation whatever amount of notes their own customers and the public were willing to absorb. Conceding to the Scotch banks the credit of an ingenious device for keeping the note circulation within moderate limits, the unanswerable objection to the soundness of their issues always remained. Supposing the occurrence of some great political or commercial convulsion, general want of confidence, and a run for gold, from what source could these banks seek or expect supplies of the precious metals to support their paper currency? Their own coffers bare, if not practically empty, their circulation based on confidence to a degree unprecedented, what alternative had they, on any such emergency, but to apply to the Bank of England for sovereigns? The deduction, therefore, is as inevitable as it has proved unpalatable, that the Scotch and Irish banks, treating them in this matter as one body, notwithstanding their undeniable resources and prestige, were yet truly and unequivocally dependent on the Bank of England for the ultimate convertibility of their notes. This state of things has been altered. Like the English provincial banks, the credit circulation of the Scotch and Irish banks is now confined within statutory limits; and, for notes issued beyond the prescribed amount, specie must be held at the head office of the bank, which happens to be in excess. The result is (and how extraordinary that the rule should ever have been otherwise), that all the banks now retain permanently in their possession, in addition to *securities*, a considerable sum in specie, certainly a desideratum. By this wise arrangement, then, the Bank of England, its note no longer a legal tender in Scotland, has been relieved from a grievance, and the Scotch and Irish circulation, placed now, at any rate, upon a semi-metallic basis, most unquestionably strengthened.

And, *Lastly*, Provision has been made for the publication of the names of shareholders, once a year, in the newspapers. This enables the public to form some opinion of the responsibility and

standing of the persons composing banking institutions. Besides this, the new joint-stock banks are bound to publish monthly, in the *Gazette*, a short abstract of their liabilities and assets—thereby securing publicity, and, further, enabling comparisons to be made, from time to time, of their progress and position.

The changes in the banking laws have, therefore, most assuredly been in the right direction, though capable still of some slight improvements.

CHAPTER III.

THE BANK OF ENGLAND OR A STATE BANK—INCREASE OF ISSUES ON SECURITIES.

WITH the strongly developed tendency towards speculation, in our commercial cities, and the impossibility of the great mass of the population, as at present educated, discriminating between what is sound, and what is dangerous and fictitious in reference to paper money; for these and similar reasons, sweeping or fundamental changes in the present banking laws would evidently, it is seen, be attended with confusion, if not with danger.

Admitting the accuracy of the foregoing propositions, why yet leave the currency, it may be asked, under the control of a private corporation like the Bank of England? Just because that, on an average of years, experience has shown that the management of such a body will always be superior to that of the State, or any Parliamentary or Government Commission. There is, besides, this additional advantage, that the Bank is never absolutely irresponsible; it can be controlled at any time, on *cause shown*; and, besides, its functions, as the dispenser of the currency, can always be kept exclusively administrative.

But, dealing with Government or Parliament supervision or control, would be a contradiction in terms. In troublous times, within or without, personal or political considerations—technically “reasons of State”—might, in matters of currency, be made to outweigh all other considerations. Under irresponsible authority, the circulation might be tampered with, obligations altered, even commerce blasted, without those most concerned being able to gainsay it.

Let us elucidate this question, with the aids of history and experience. There is Russia; her paper currency, some years ago, was so redundant, that the paper rouble could only be turned into specie at an enormous sacrifice. Again, her circulation is practically inconvertible, any stock of treasure in forts Peter and Paul, at St Petersburg, being believed to be a myth. In Austria, about 1816, the Government paper was so depreciated, that the exchangeable value of the 1000 florin note had sunk as low as 294 florins. Just now, the Austrian Government is stated to be due the National Bank, Vienna, no less than L.24,000,000; and who can, therefore, wonder that that bank's issues are now redundant, and its notes only convertible into specie at a great sacrifice to the holder? In Hungary, what improper uses, revolutionary and financial, were seen to have been made of the Kossuth notes! In enlightened Berlin, the Royal Bank, though the value of money required it, was recently prohibited by the Government from raising the rates of discount. In France, at the Revolution, what ruin followed in the wake of the floods of assignats, issued on the faith of Government decrees and national domains; and, even now, it is seen how much enterprise is affected, and what evils follow the imputed tampering of the French Government with the Bank of France! In Holland, about the end of last century, the famous Bank of Amsterdam was found to be insolvent, and its treasure-chests empty, through its trafficking with the Government, in opposition to its statutes. In the United States of America, and in

India, complications and anomalies, not to speak of the withdrawal of specie from commercial uses, have followed the attempts of the Governments to act as their own bankers. Governments, therefore, as a rule, may be pronounced as unsafe managers of currency, and unwise bankers.

But granting that the continuance of the present connection between the Bank of England and the State, may be the wise and expedient course under present circumstances, why oblige the Bank, "in season and out of season," to purchase all the gold offered to it at a fixed price. The answer just is—that while the sovereign represents a certain quantity of gold, of fixed weight and fineness, no practical hardship can flow from the bank buying gold at a price a very little less than the statutory value of the coin. When placed with the bank as an ordinary deposit, the owner of the gold obtains credit for its value in its books, but getting no interest; the Bank, by such a transaction, can suffer no hardship. If sovereigns be given in exchange for bullion, the Bank is still no loser, the uncoined coming in place of the coined money; every increase to the stock of gold in the country adding so much strength to the position of the Bank. Fixed price, like the magnet, attracts gold to London. If dearer elsewhere, it cannot, of course, remain. When gold is sent abroad in large amounts, and the metallic reserve gets low, the bank has no alternative but to enter the market, like any other bullion merchant, and to get what it wants must increase its price, even though this should entail a considerable temporary loss. As prices can, however, be affected by raising the rates of discount, thereby cheapening commodities, and turning the stream of bullion towards England; such an extraordinary step as this does not require to be adopted very often.

But the Credit circulation of the Bank may, it is thought, yet safely and conveniently be extended. There is no peculiar talisman in L.14,000,000, the present credit circulation. Though this limit was probably adopted originally from having been the

maximum amount of notes in the hands of the public beyond the stock of bullion, within some particular period, yet another and a higher sum might now be fixed for this credit circulation, without infringing any abstract principle; the *amount*, indeed, not involving any principle at all, but being a thing of expediency, and for arrangement.

Here, again, calling in the aid of experience, we find it established, that since 1844, the circulation of the Bank has never been under L.16,735,715, the lowest point touched on 16th December 1848. This is a most convenient, nay, an irrefragible test for judging what should be the best course for the future; indeed, coupled with the important circumstance, that the privileged circulation of the English provincial banks has, within eleven years, diminished L.623,425, and will decline yet more as time rolls on—it almost of itself leads to the inevitable inference, no principle intervening—that the authorised circulation of the Bank of England, might, with the greatest safety and advantage to that institution, and to the country, be increased other L.2,000,000, and that over and above L.415,950, being two-thirds of the lapsed circulation of the country banks—to which last, indeed, the Bank may now obtain right at any time under an order in Council. The securities for these additional Issues would fall to be fixed by government, and the profits realised to be paid into the Exchequer.

CHAPTER IV.

THE CIRCULATION OF THE COUNTRY BANKS—SYSTEM OF
MUTUAL EXCHANGES—CONVERTIBILITY OF THE NOTE.

WE have seen, that at this juncture in banking affairs, the circulation of the English provincial banks is moderate in amount, so much so, indeed, that persons uninitiated, would be apt to infer that the "golden fetters" do not greatly hamper these institutions after all. This would be "reckoning without their host," for murmurings and remonstrances do emanate from time to time from provincial bankers, in reference to the restrictions imposed by the Acts of 1844. Their grievances are, however, neither very new or very formidable; indeed, by some statesmen and economists, their complaints would be deemed arguments to prove the effective working of the present system. What though the circulation of some banks may increase inconveniently, such as during recent periods of unexampled activity in business, from the accumulation of wealth, or owing to present high prices? This determines nothing more than the oscillatory character of all bank Issues, and that at certain periods, and under peculiar circumstances, sovereigns and Bank of England notes must perform the functions of a local currency. When this happens, the provincial banks may be shorn of a portion of their profits, but the nation, notwithstanding, indubitably gains. Remove the shackles from the local Issues, and you, as if by *hocus pocus*, transform paper into capital, convert wholesome activity into rash speculation.

But these objections from another point of view have no real weight. The English Banks of Issue have always the privilege of basking in the sunshine of the Bank of England, graphically designated indeed by these eminent authorities, M'Culloch and

Horsley Palmer, their "Bank of support." When their own issues are exhausted, they may employ Bank of England notes at will. Here is a reserve currency, so to speak, for the banks, without responsibility, or any obligation to provide for its convertibility. The Scotch Banks have no such privilege; not only their notes, but their whole obligations, must be supported by specie; the Scottish public, but not so their English neighbours, may refuse to take payment in Bank of England paper.

The English Provincial Banks have it however in their power both to purify and economise their present circulation by borrowing from the Scotch Banks their system of exchanges. Their monthly averages just now must be unnecessarily increased by banks holding each other's notes, instead of getting rid of them by stated exchanges, as is the case in Scotland—the Scotch Banks returning only as in circulation what the public, in contradistinction to other banks, really require and retain.

But imagine England apportioned for the purpose of a uniform system of exchanges, into four or five districts. In each town, under such a plan, the banks might exchange notes, and for the net balances, a draft on demand might be given on one or other of the banks of the town where the exchanges of the district would fall to be finally adjusted and paid. For the settlement of the exchanges, and as a security for the payment of the notes in the hands of Exchanging Banks, and of the drafts for exchange balances, each bank, in proportion to its circulation, should provide its *quota* of Exchequer Bills or Bonds. These could be deposited for *this special purpose* with one particular bank, and the exchange balances, so far as practicable, settled by the transfer of these securities from one to another—each bank being bound to hold at all times a *minimum* amount of Bills or Bonds, paying for their purchase when obliged to buy—by a draft on London, say at 3/d. Judging by Scotland, such a system would economise the circulation probably to the extent of not less than one-third of the whole amount.

This plan, moreover, would be an evident improvement on the Scotch method; for, most anomalously, some of the issuing banks in Scotland, though participating in the benefits, neither furnish Exchequer Bills, nor are directly in any way parties to the exchange arrangements. Again, it happens that this device for settling the Scotch exchanges, furnishes no security of any kind, either to the banks or the public, for the due retirement of notes, or for the payment of drafts taken in exchange for Exchequer Bills. On a sale of Bills, as at present practised in Edinburgh, the property in the Bills is at once transferred to the purchasing bank; so it might occur at any time in this way, as has happened before, that a bank for its Government Bills, might receive a London draft, if not intrinsically worthless, yet not above suspicion. These defects are so notorious, that the delay in the application of a remedy is altogether unaccountable.

The circulation of the Scotch Banks has for many years been in excess of the statutory limit of L.3,087,209. The Irish Banks, on the contrary, have been almost invariably within their authorised issue of L.6,354,494. The amount fixed for the Scotch Banks was from the first inconveniently low, arising from the mistake, pointed out at the time, of limiting the sum to the average circulation for the year ending 1st May 1845, in place of the *highest* amount of notes out during that or the ten preceding years. The temporary expansion in the paper currency during the months of May, June, November, and December, is a thing altogether peculiar to Scotland, arising from the payment of rents, wages, and generally from the settlement of all monetary transactions at Whitsunday and Martinmas. The practical effect of this exceptional half-yearly increase in the circulation, is to cause the Scotch Banks, at much inconvenience and expense, to transfer, twice a-year, from the vaults of the Bank of England half a million of sovereigns, and, without benefiting anybody, to keep this gold in Edinburgh and Glasgow for a few weeks.

The subtraction of this L.500,000 tells most injuriously upon the Bank at a critical period like this; affects the money market by withdrawing from the London Banks and bill brokers so much money at call; curtails the lending power of the Scotch Banks by absorbing "for the nonce" a portion of their reserves; and, in short, is quite uncalled for, this extra gold never requiring to be kept, inasmuch as the paper circulation is never permanently enlarged.

CHAPTER V.

FREE TRADE IN BANKING INEXPEDIENT.

THE Banking Acts, it is seen, may very properly be amended in some matters of detail, but their leading principles, as has been shown, should be retained intact. While this, it is believed, is the opinion of the great bulk of the community, some influential persons are yet found to recommend free trade in money as the great panacea "for securing prudence and discretion in the management of commercial affairs." Scotland, of course, previous to 1845, is the grand case, if not the only ground, on which their argument for liberation from restraint is founded. Much misapprehension, however, prevails on this score. It will be the object of the following concluding remarks to put this matter on its proper footing.

But, to begin with England.—Except within the "London District," banking was practically free, from the passing of the Act of 7 Geo. IV., cap, 46, down to 1844. Will the period from 1826 to 1844 bear to be compared with the recent period of restriction from 1844 to 1855. The former, it is notorious, was interspersed with perpetually recurring cycles of panic, bank-

ruptcy, and confusion ; suffice it, for conviction, to select a few of the names from among the host of bank failures which distinguished the era of freedom, such as the Norwich Bank, the Northern and Central Bank, the Commercial Bank of England, the Marylebone Bank, the North of England Joint Stock Bank, and the Bank of Manchester. The latter period has furnished few failures, the management of the banks generally having been prudent, their business prosperous, and their note circulation sound, because never redundant.

In Ireland, anterior to 1844, banking was unfettered, except in Dublin, and within a certain circle, yet bank failures occurred, and much misery was inflicted on the rural population by the stoppage of such establishments as the Southern Banking Company and the Agricultural and Commercial Bank of Ireland.

Since 1844 monetary matters there have been managed with most exemplary discretion ; the public has been accommodated, and distrust in banks has disappeared.

In the United States of America, down to a recent date, free trade in banking was the rule—restriction the exception. Paper money, convertible and inconvertible, has been tried in America on a gigantic scale. Who can forget the ruin which spread like a deluge over that country on the explosion of that monstrous imposture the “United States Bank,” or the feeling of insecurity which pervaded the American public, as bank after bank proclaimed its insolvency—that melancholy time when notes came to be known popularly in the West as “*skin plasters*,” and when paper was taken for anything and everything except for that which it purported to represent, “money of account.” Subsequently, it is true, confidence was restored—the Governments of most of the states having stipulated for gold being held or securities deposited against future issues. The crisis of 1853, however, showed that State Bonds, Canal and Railway Mortgages, and Land Titles, inconvertible, and therefore unavailable, were, on occasions of panic, useless to prevent stoppage or avert insol-

vency, confidence being only attainable by means of specie payments.

But Scotland, will it overrule this general experience? Has its banking management been good throughout, and did the banks there uniformly provide for the convertibility of their paper currency, by holding at all times in reserve a proportional amount of specie? The answers must be in the negative. The chartered banks in Scotland, it is believed, have always managed their affairs with consummate sagacity and prudence; but comparing Scotland, for instance, with England, and taking into account the relative population and wealth of the two countries, it will be found that as much capital, if not more, has of late years been squandered in banking speculations in Scotland, as has been lost in England in the same way, and during an equal period. This is apt to be overlooked, simply because the Scottish public, in contradistinction to shareholders, have not been the sufferers. Keeping out of view the disastrous episode in Scotch banking, caused by the failure of Douglas, Heron, and Co., about the middle of the last century, and the bankruptcies of private banks issuing notes, like the Leith Banking Company, and the Renfrewshire Bank, we have the failure, or the winding up or merging into other companies of the following joint-stock banks:—1. Aberdeen Commercial Banking Company. 2. Aberdeen Bank. 3. Ayrshire Banking Company. 4. Dundee Commercial Bank. 5. Dundee Union Bank. 6. East Lothian Bank. 7. Fife Banking Company. 8. Montrose Bank. 9. Paisley Commercial Bank. 10. Southern Bank of Scotland; and 11. The Stirling Bank.

Dire disaster penetrated to the hearths of many shareholders, by the losses sustained through the most of these companies; and what protected Scotland from panic on occasions like these, and at other times also, when portions of capital were believed or admitted to have been lost by other institutions, simply the circumstance that all the partners in these banks were known to

be liable to the public for their whole obligations, even to the last sixpence of their fortunes. But for this protecting shield, and the heavy prescription and great resources of the privileged banks, it is impossible to believe that these storms could have been weathered; the damaging announcements of ex-Chancellors of the Exchequer¹ averted, and commercial crisis' surmounted, without confidence being lost, or blows inflicted, sufficient to cripple, if not kill, some unfortunate victims.

Until the passing of Sir Robert Peel's Act in 1845, it is quite notorious that the amount of gold kept permanently in Scotland was a mere bagatelle, either viewed in reference to Issues or banking obligations, or commerce generally. The Scotch banks were satisfied, because their profits were improved by this state of things, and when the "worst came to the worst," they calculated but unfairly, as has been seen, that they could get help from England. The owners of the L.40,000,000 of deposits were similarly at ease, because their safety was insured by the law of unlimited liability; while the idea of the possibility of the paper pound and the sovereign not being under all circumstances synonymous in value, was a thing which rarely, if ever, entered into their minds.

Much lauded Scotland, therefore, reading her monetary system aright, does not run counter to general experience in this matter of banking and paper-money; and government, accordingly, in 1845, discriminating correctly between currency, capital, and credit, despite the much vaunted faith of depositors justly stipulated, when delegating to the banks, and partly on credit, the privilege of issuing notes, that beyond a certain fixed limit the paper currency must rest on specie alone.

Scotland, it may be mentioned, had also the equivocal honour of originating share and lone banks, now so eagerly patronised in continental capitals. Feasible in theory, in practice they proved disastrous, and the last of the Exchange Banks, as they

¹ D'Israeli's *Life of Lord George Bentinck*, p. 445.

were called, was wound up lately, and a considerable portion of its capital lost.

But, to conclude,—In the united kingdoms, all new joint-stock banks are now subject to one law, which, though not obligatory on existing banks, they can, at any time of their own accord, come under its provisions.

The government, therefore, without “any respect of persons,” retired from what was formerly an irksome and invidious duty, can now properly refer applicants for charters to this Act of Parliament, under which, in London alone, three new banks are now in operation.

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